



MEMORANDUM

To: Michigan Senate Finance Committee Members

From: Dan Papineau, Michigan Chamber of Commerce

Date: September 5, 2018

Subject: SB 1097 - State Tax Liability for Michigan Businesses to Rise Due to Federal Tax Reform

Since the Federal Tax Cuts and Jobs Act passed at the end of 2017, Michigan businesses have been working to fully understand all the consequences of the massive reform. Now that the law is 9 months old and the Internal Revenue Service has been working around the clock to provide clarifying guidance, the focus has now shifted to analyzing state tax consequences of the federal reform.

One area that will have the greatest impact on a business's state tax liability is the new limitation on the amount of interest expenses that can be deducted from corporate income.

Under the Tax Cuts and Jobs Act businesses were limited in the amount of interest expenses that can be deducted from corporate income. This broadened the tax base allowing more income to be taxable. The federal tax reform included a significant rate reduction to more than make up for the base broadening, thereby still resulting in a tax cut on the federal level.

Michigan uses the federal tax base when calculating our state's Corporate Income Tax. The same tax base that was expanded by limiting the amount of interest that can be deducted from corporate income. Michigan will not be lowering our rate to make up for the base expansion and therefore, Michigan businesses will see an inadvertent increase in their state tax liability.

SB 1097 will allow Michigan businesses to disregard the interest expense deduction limitation when calculating corporate income and allow a business to avoid their tax base from expanding leaving their state tax liability untouched. This will put Michigan businesses in the same situation they were prior to federal tax reform.

Please support SB 1097.

Sincerely,

Dan

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